

FAMILY SUPPORT CENTER

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2006 and 2005

FAMILY SUPPORT CENTER

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► Lake, Hill & Myers

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REPORT OF INDEPENDENT ACCOUNTANTS

August 19, 2006

To the Board of Directors of
Family Support Center

We have audited the accompanying consolidated statement of financial position of Family Support Center (a nonprofit organization) and its subsidiary as of June 30, 2006 and 2005 and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Family Support Center and its subsidiary as of June 30, 2006 and 2005 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 19, 2006 on our consideration of Family Support Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. This report is an integral part of audits performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Lake, Hill & Myers

FAMILY SUPPORT CENTER

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
Current assets:		
Cash	\$ 110,188	\$ 178,541
Grants and contracts receivable	180,656	164,702
Other current assets	<u>10,242</u>	<u>3,128</u>
Total current assets	<u>301,086</u>	<u>346,371</u>
Property and equipment, net	280,164	213,289
Notes receivable - housing development limited liability companies - related parties	499,241	499,241
Development fees receivable - related parties	249,821	249,821
Investment in and advances to housing development limited liability company - related party	<u>566,541</u>	<u>557,745</u>
	<u>\$1,896,853</u>	<u>\$1,866,467</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 8,391	\$ 23,056
Accrued payroll	12,289	12,506
Accrued vacation payable	<u>13,000</u>	<u>13,000</u>
Total current liabilities	<u>33,680</u>	<u>48,562</u>
Deferred revenue - development fees receivable - related parties	249,821	249,821
Development fee payable - related party	<u>13,561</u>	<u>13,561</u>
Total liabilities	<u>297,062</u>	<u>311,944</u>
Commitments and contingencies (Note 9)		
Net assets:		
Unrestricted:		
Property and equipment	280,164	213,289
Housing development limited liability companies - related parties	1,065,782	1,056,986
Other unrestricted net assets	<u>125,689</u>	<u>155,967</u>
Total unrestricted net assets	1,471,635	1,426,242
Temporarily restricted	<u>128,156</u>	<u>128,281</u>
Total net assets	<u>1,599,791</u>	<u>1,554,523</u>
	<u>\$1,896,853</u>	<u>\$1,866,467</u>

See notes to the financial statements.

FAMILY SUPPORT CENTER

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Unrestricted net assets:		
Public support:		
Contributions	\$ 237,558	\$ 178,936
In-kind	85,332	135,028
Grants and contracts	723,537	778,426
Restrictions satisfied	<u>128,281</u>	<u>46,281</u>
	<u>1,174,708</u>	<u>1,138,671</u>
Revenue:		
Client fees	28,841	30,210
Interest	595	775
Other	<u>27,076</u>	<u>22,167</u>
	<u>56,512</u>	<u>53,152</u>
Total unrestricted public support and revenue	<u>1,231,220</u>	<u>1,191,823</u>
Program services:		
Counseling services	148,844	152,540
Crisis nurseries and adoptive respite	550,688	513,209
Parent advocacy and education	171,416	205,445
Lifestart village	<u>155,887</u>	<u>150,148</u>
Total program expenses	<u>1,026,835</u>	<u>1,021,342</u>
Supporting services:		
Management and general	88,747	87,641
Fundraising	<u>70,245</u>	<u>64,615</u>
Total supporting expenses	<u>158,992</u>	<u>152,256</u>
Total expenses	<u>1,185,827</u>	<u>1,173,598</u>
Change in unrestricted net assets	45,393	18,225

(continued)

See notes to the financial statements.

FAMILY SUPPORT CENTER

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

(continued)

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Temporarily restricted net assets:		
Public support:		
Contributions	40,000	82,000
Grants and contracts	88,156	46,281
Restrictions satisfied	<u>(128,281)</u>	<u>(46,281)</u>
Change in temporarily restricted net assets	(125)	82,000
Change in net assets	45,268	100,225
Net assets, beginning of year	<u>1,554,523</u>	<u>1,454,298</u>
Net assets, end of year	<u>\$1,599,791</u>	<u>\$1,554,523</u>

See notes to the financial statements.

	Program Services Expense				Supporting Services Expense					
	Counseling Services	Crisis		Parent Advocacy & Education	Lifestart Village	Management and general		Fundraising	Total supporting services	Total
		Nurseries & Adoptive Respite								
Salaries	\$ 106,259	\$ 365,130	\$ 120,672	\$ 84,437	\$ 676,498	\$ 45,694	\$ 39,940	\$ 85,634	\$ 762,132	
Employee benefits	4,283	9,454	3,935	3,515	21,187	5,223	2,627	7,850	29,037	
Payroll taxes	11,691	32,646	9,119	4,792	58,248	5,611	4,086	9,697	67,945	
Student stipend	3,578	2,123	-	-	5,701	-	-	-	5,701	
Bad debt	-	-	-	-	-	8,279	-	8,279	8,279	
Food	-	5,417	-	327	5,744	-	-	-	5,744	
Household supplies	-	3,559	-	636	4,195	-	-	-	4,195	
Insurance	2,921	8,158	2,279	1,197	14,555	942	920	1,862	16,417	
Interest	-	-	-	-	-	206	-	206	206	
Local transportation	729	6,903	15,254	666	23,552	1,593	-	1,593	25,145	
Miscellaneous	69	2,597	51	558	3,275	2,293	17,509	19,802	23,077	
Office supplies	1,976	5,024	1,666	1,006	9,672	2,755	1,113	3,868	13,540	
Printing	850	1,136	417	444	2,847	339	298	637	3,484	
Professional services	226	33,056	302	8,160	41,744	1,760	560	2,320	44,064	
Program supplies	2,190	35,996	5,204	5,967	49,357	6,234	-	6,234	55,591	
Publications, memberships	593	3,961	242	607	5,403	329	-	329	5,732	
Repairs and maintenance	3,570	11,109	3,064	2,532	20,275	3,006	-	3,006	23,281	
Telephone	1,736	4,159	3,740	839	10,474	946	756	1,702	12,176	
Utilities	3,269	7,124	1,792	338	12,523	1,787	977	2,764	15,287	
Village support	-	-	-	37,903	37,903	-	-	-	37,903	
Workshops and seminars	300	170	-	40	510	290	-	290	800	
Depreciation	4,604	12,966	3,679	1,923	23,172	1,460	1,459	2,919	26,091	
Total	\$ 148,844	\$ 550,688	\$ 171,416	\$ 155,887	\$ 1,026,835	\$ 88,747	\$ 70,245	\$ 158,992	\$ 1,185,827	

See notes to the financial statements.

FAMILY SUPPORT CENTER
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2005

	Program Services Expense				Supporting Services Expense				
	Counseling Services	Crisis Nurseries & Adoptive Respite	Parent Advocacy & Education	Lifestart Village	Total program services	Management and general	Fundraising	Total supporting services	Total
Salaries	\$ 110,583	\$ 315,515	\$ 139,283	\$ 97,930	\$ 663,311	\$ 44,365	\$ 51,413	\$ 95,778	\$ 759,089
Employee benefits	4,540	12,320	2,961	6,493	26,314	5,415	2,305	7,720	34,034
Payroll taxes	10,213	29,296	12,935	9,062	61,506	4,622	4,804	9,426	70,932
Student stipend	5,160	840	-	-	6,000	-	-	-	6,000
Food	-	1,945	-	143	2,088	-	-	-	2,088
Household supplies	-	3,634	-	426	4,060	-	-	-	4,060
Insurance	2,652	8,946	3,797	928	16,323	3,009	1,026	4,035	20,358
Interest	-	-	-	-	-	806	-	806	806
Local transportation	678	4,115	13,199	1,326	19,318	987	-	987	20,305
Miscellaneous	264	2,359	164	1,213	4,000	4,295	601	4,896	8,896
Office supplies	1,193	3,079	1,110	397	5,779	1,287	514	1,801	7,580
Printing	1,421	2,307	694	566	4,988	2,570	549	3,119	8,107
Professional fees	300	40,441	1,019	2,596	44,356	6,290	469	6,759	51,115
Program supplies	1,021	44,134	17,056	23,001	85,212	4,211	-	4,211	89,423
Publications, memberships	735	1,489	83	394	2,701	355	-	355	3,056
Repairs and maintenance	4,703	22,239	4,373	3,255	34,570	4,507	-	4,507	39,077
Telephone	1,644	4,351	4,270	545	10,810	824	845	1,669	12,479
Utilities	2,250	7,970	982	150	11,352	604	869	1,473	12,825
Workshops and seminars	3,030	1,080	707	17	4,834	542	-	542	5,376
Depreciation	2,153	7,149	2,812	1,706	13,820	2,952	1,220	4,172	17,992
Total	\$ 152,540	\$ 513,209	\$ 205,445	\$ 150,148	\$ 1,021,342	\$ 87,641	\$ 64,615	\$ 152,256	\$ 1,173,598

See notes to the financial statements.

FAMILY SUPPORT CENTER

CONSOLIDATED STATEMENT OF CASH FLOWS

	<u>Year ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from grants and contracts	\$ 795,739	\$ 793,933
Cash received from donors	277,558	260,936
Cash received from clients and others	55,917	52,377
Cash paid to vendors and employees	(1,096,194)	(1,014,159)
Interest received	595	775
Interest paid	(206)	(806)
Net cash provided by operating activities	<u>33,409</u>	<u>93,056</u>
Cash flows from investing activities:		
Decrease in development fees receivable - related parties	-	58,865
Increase in investment and advances to housing development limited liability company - related party	(8,796)	(7,745)
Purchase of property and equipment	<u>(92,966)</u>	<u>(22,651)</u>
Net cash provided by (used in) investing activities	<u>(101,762)</u>	<u>28,469</u>
Cash flows from financing activities:		
Decrease in bank line-of-credit, net	-	(27,296)
Net cash used in financing activities	<u>-</u>	<u>(27,296)</u>
Net increase (decrease) in cash	(68,353)	94,229
Cash , beginning of year	<u>178,541</u>	<u>84,312</u>
Cash , end of year	<u>\$ 110,188</u>	<u>\$ 178,541</u>
Reconciliation of increase in net assets to net cash provided by operating activities:		
Increase in net assets	\$ 45,268	\$ 100,225
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation	26,091	17,992
Changes in assets and liabilities:		
Increase in grants and contracts receivable	(15,954)	(30,774)
(Increase) decrease in other current assets	(7,114)	1,864
Increase (decrease) in accounts payable and accrued expenses	(14,665)	743
Increase (decrease) in accrued payroll	<u>(217)</u>	<u>3,006</u>
Net cash provided by operating activities	<u>\$ 33,409</u>	<u>\$ 93,056</u>

Schedule of non-cash investing and financing activities:

None.

See notes to the financial statements.

FAMILY SUPPORT CENTER

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES:

Family Support Center (the Center), a nonprofit Utah corporation, was organized to prevent child abuse, treat its victims, and strengthen fragile families. The Family Support Center accomplishes this mission through the following programs:

- Counseling services: professional therapy and counseling to individuals and families who are at-risk or who have been physically or sexually abused.
- Crisis nurseries and adoptive respite: provide immediate short-term child care for families in crisis or emergency situations as well as in-home child care for adoptive families.
- Parent advocacy and education: parental instruction through home visits and parent education classes.
- Lifestart village: provides education, training, employment counseling, and mental health counseling, if needed, to single women with young children who reside in low-income housing developed and owned in part by the Family Support Center (see Note 4).

These programs are funded by grants and contracts from various public and private agencies as well as other donors.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of the Center and its wholly-owned subsidiary FSC, Inc., a member in related housing development limited liability companies. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Financial Statement Presentation

The accompanying consolidated financial statements of Family Support Center have been prepared using the accrual method of accounting.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements for Not-for-Profit Organizations." Under SFAS No. 117, the Center is required to report the net assets of the Center according to the following three classes of net assets:

Unrestricted - accounts for unrestricted assets (net of related liabilities) available for support of the Organization's operations. Assets designated by the Board of Directors for a specific purpose also are accounted for in this fund.

Temporarily Restricted - accounts for resources expendable only for purposes specified by the donor or at a future time specified by the donor.

Permanently Restricted - accounts for gifts requiring in perpetuity that the principal be invested and the income only be used.

Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents are defined as cash on hand and highly liquid investments with original maturities of three months or less. Restricted cash is not considered a cash equivalent.

Property and Equipment

Property and equipment are recorded at acquisition cost or, where donated, at estimated market value at the date of the donation. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, which range from 5 to 40 years.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions are recorded as revenue when cash is received or the Center receives an unconditional promise to give from the donor.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donated Services and Materials

Volunteers contribute substantial amounts of services, materials and facilities toward the fulfillment of the Organization's programs. To the extent these contributions satisfy the criteria for recognition under SFAS No. 116, they are recognized as contributions and expenses in the statement of activities and changes in net assets or are capitalized in the statement of financial position. The donated amounts recognized are generally recorded at the fair market value represented on the vendor invoice, or an estimated fair value as can best be approximated by sales of similar items.

The donated services and materials total \$85,332 and \$135,028 during the years ended June 30, 2006 and 2005, and represent primarily the donation of materials that are provided to or consumed by participants in the Center's Crisis Nursery and Lifestart Village programs. These amounts are recorded as contributions and as expense in the statement of activities and changes in net assets.

No amounts have been reflected in the consolidated financial statements for donated volunteer services, which do not satisfy the criteria for recognition under SFAS No. 116; however, a substantial number of volunteers have donated significant amounts of time to the Center's programs.

Nonprofit Status

The Center was organized as a nonprofit corporation in accordance with the laws of the State of Utah and is exempt from income taxation under provisions of Section 501(c)(3) of the Internal Revenue Code.

Long-lived Assets

The Center reviews long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, as measured by a comparison of estimated future cash flows (undiscounted and without interest charges) to the carrying value of the asset. Assets held for sale are written down to their fair value, less cost to sell.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Functional Expenses

The Center allocates its expenses on a functional basis among its programs and supporting services. Expenses that can be identified with a specific program or supporting service are directly classified to that program or service. Other expenses that are common to several functions are allocated on a reasonable and systematic basis.

Investment in Housing Development Limited Liability Company

Investment in housing development limited liability company consists of a minority, but managing membership interest, in a related housing development limited liability company accounted for using the equity method of accounting.

Reclassifications

Certain reclassifications have been made to the 2005 amounts to be consistent with classifications used in 2006.

Concentrations

A significant percentage of the Center's assets are related to its investment in and notes receivable from related housing limited liability companies. At June 30, 2006 and 2005, assets related to these related housing entities total \$1,065,782 and \$1,056,986, or approximately 56 and 57 percent of the Center's total assets. These are long-term assets.

The Center maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Center has not experienced any losses in such accounts. The Center believes it is not exposed to any significant credit risk on cash and cash equivalents.

For the years ended June 30, 2006 and 2005, one government agency accounted for 46 and 41 percent of public support. Additionally, at June 30, 2006 and 2005, there were two organizations who collectively accounted for 70 and 68 percent of total grants and contracts receivable.

NOTE 2 - GRANTS AND CONTRACTS RECEIVABLE:

Grants and contracts receivable consist of the following:

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
State of Utah - DCFS	\$ 38,740	\$ 65,264
State of Utah - other agencies	23,186	14,103
U.S Department of Housing and Urban Development	13,849	13,855
Local municipal CDBG allocations	6,340	18,255
United Way	88,156	46,281
Others	<u>10,385</u>	<u>6,944</u>
	<u>\$180,656</u>	<u>\$164,702</u>

NOTE 3 - PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	<u>June 30,</u>	
	<u>2006</u>	<u>2005</u>
Land	\$ 49,734	\$ 49,734
Buildings and improvements	595,702	514,260
Furniture and equipment	<u>179,735</u>	<u>168,211</u>
	825,171	732,205
Less accumulated depreciation	<u>(545,007)</u>	<u>(518,916)</u>
	<u>\$ 280,164</u>	<u>\$ 213,289</u>

NOTE 4 - NOTES RECEIVABLE - HOUSING AND DEVELOPMENT LIMITED LIABILITY COMPANIES - RELATED PARTIES:

The Center is a 0.005% owner in the Family Support Center Village, LLC (the Village), a residential rental project consisting of 39 low-income housing units built to provide housing for single women and their families. To support the construction and development of the project, the Center solicited contributions from the general public and loaned amounts received to the Village under a promissory note receivable. The note accrues interest at 8.5 percent, beginning with project completion in 2003, until the note receivable matures in 2033. Principal payments are subject to available cash flow as defined in the promissory note.

The Center is also a 0.1% owner in Family Support Center Crown, LLC (the Crown), a development consisting of eight units being sold on a lease-to-own basis to qualifying low-income tenants. To support the construction and development of the project, the Center advanced funds to the Crown under a promissory note receivable. The note bears interest at 3.0 percent with any unpaid principal or interest due in 2018.

As of June 30, 2005, notes receivable due from these related parties is as follows:

The Village	\$443,250
The Crown	<u>55,991</u>
	<u>\$499,241</u>

The Center has not recorded any interest receivable or interest revenue related to these notes receivable as of June 30, 2006 and 2005. The Center will record interest revenue when it is received. The Center does not expect to receive any payments on these notes during the next fiscal year.

NOTE 5 - DEVELOPMENT FEES RECEIVABLE - RELATED PARTIES:

In connection with services rendered in developing the Village and the Crown, the Center entered into development agreements totaling \$444,292. During the year ended June 30, 2005, development fees totaling \$58,865 were received from the Crown. At June 30, 2006 and 2005, the Center has development fees receivable as follows:

The Village	\$202,621
The Crown	<u>47,200</u>
	<u>\$249,821</u>

As payment of development fees is contingent upon the projects meeting certain operational benchmarks and/or adequate project cash flows, the Center has recorded deferred revenue at June 30, 2006 and 2005 for this development fee receivable amount. As development fee payments are made, or as payment is assured, development fee revenue will be recognized by the Center.

NOTE 6 - INVESTMENT IN AND ADVANCES TO HOUSING DEVELOPMENT LIMITED LIABILITY COMPANY - RELATED PARTY:

To support the construction and development of the Village, the Center received two grant awards totaling \$550,000 from the U.S. Department of Housing and Urban Development (HUD). As approved by HUD, these awards were then conveyed to FSC, Inc., a wholly-owned for-profit subsidiary of the Center. In turn, FSC, Inc. contributed \$550,000 to the Village as a capital contribution. HUD could require repayment of the grant awards as further discussed in Note 9. The Center's investment in and advances to the Village are summarized as follows:

	June 30,	
	2006	2005
Capital contributions	\$550,000	\$550,000
Other advances - capital improvements	<u>16,541</u>	<u>7,745</u>
	<u>\$566,541</u>	<u>\$557,745</u>

NOTE 7 - DEVELOPMENT FEE PAYABLE - RELATED PARTY:

The Center has entered into an agreement to pay ten percent of its development fee from the Village (Note 5) to the management agent of the Village. As of June 30, 2006 and 2005, the Center has recorded \$13,561 as development fee payable to this related party management agent. This represents ten percent of the management fee collected by the Center through June 30, 2006 and 2005. The Center will pay an additional \$20,262, representing ten percent of the uncollected development fee, once the remaining unpaid development fee is collected and ninety percent of the collected development fee is recorded as revenue by the Center.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets consist of the following:

	June 30,	
	2006	2005
United Way-time restriction - 2007	\$ 88,156	\$ 46,281
Play-room construction - Sugarhouse Nursery	-	82,000
Printing and fundraising	20,000	-
Other - time restriction - 2007	<u>20,000</u>	<u>-</u>
	<u>\$128,156</u>	<u>\$128,281</u>

NOTE 9 - COMMITMENTS AND CONTINGENCIES:

During 1984, the Center received a Salt Lake County Community Development Block Grant to purchase a facility for its operations in Midvale, Utah. Under a special warranty deed, the facility could revert back to the county if the facility is no longer used to support the prevention and treatment of child abuse.

If facilities constructed and owned by the Village cease to be used for supportive services for a minimum of ten years, the Center could be required to repay HUD some portion of the \$550,000 granted to the Center in 2003 for the development of the Village (Note 6). The provision to repay these funds expires ten percent per year beginning ten years from the grant date.

As the managing member of the Village, the Center has made the following commitments:

Construction Completion and Development Deficit Guarantee

The managing member shall cause the final completion of construction to occur and shall advance to the Village an amount equal to all development deficits or operating deficits until break-even operations have been achieved. Any such advances shall be non-reimbursable and shall not affect the managing member's capital account. This guarantee expires once the project achieves breakeven operations as defined by the operating agreement. During the year ended June 30, 2006, the Center advanced \$37,903 to the Village under this guarantee. This amount has been expensed in the accompanying financial statements. The current rental amounts at the Village are such that the on-going financial support of the Center is required for the Village to meet its on-going financial obligations. Payments from the Center to the Village for operational support are expensed when paid and/or incurred. The Village is currently seeking rental support subsidies for the Village tenants to improve Village operations.

Operating Deficit Guarantee

The managing member guarantees it will make advances up to \$250,000 to the Village to fund operating deficits at any time during the period from break-even operations until December 31 of the third year after achievement of break-even operations. The operating deficit loans shall be non-recourse, non-interest bearing and be payable solely from net cash flow. The break-even date has not yet been established.

Tax Credit Recapture Guarantee

The managing member guarantees to pay amounts to the investor member if there is a tax credit recapture event. The payment amount shall be equal to any deficiency assessed against the investor member resulting from a tax credit recapture event plus any penalty and interest related to the deficiency and any tax resulting from any payment as a result of this agreement.

Tax Credit Availability Guarantee

The managing member guarantees to pay amounts to the investor member if during the tax credit period the actual credits are less than projected credits.

As the managing member of the Crown, the Center is liable to the Investor Member for any shortage in the agreed-upon return as a result of any breach by the managing member or any failure of the Crown to satisfy Internal Revenue Code Section 42 compliance requirements.

NOTE 10 - BANK LINE-OF-CREDIT:

The Center has a bank line-of-credit with a maximum credit limit of \$200,000. There was no balance at June 30, 2006 or 2005. The line-of-credit has a variable interest rate which was 9.5 and 7.75 percent at June 30, 2006 and 2005.

NOTE 11 - RETIREMENT PLAN:

The Center sponsors a defined contribution retirement plan for its employees. During the year ended June 30, 2006, the Center contributed \$1,500 to the Plan. During the year ended June 30, 2005, the Center did not make a contribution to the Plan.

NOTE 12 - RELATED PARTY TRANSACTIONS:

As further described in Note 4, the Center has made loans to the Village and the Crown totaling \$499,241 at June 30, 2006 and 2005. The Center has also recorded development fees receivable at June 30, 2006 and 2005 from these same related entities totaling \$249,821 (Note 5). The Center has made investments in and advances to the Village totaling \$566,541 and \$557,745 at June 30, 2006 and 2005, as more fully described in Note 6.

A member of the board of directors is employed by the management agent of the Village. At June 30, 2006 and 2005, the Center owes the management agent \$13,561 as further described in Note 7.

►Lake, Hill & Myers

A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

6695 South 1300 East
Salt Lake City, Utah 84121
Voice: (801) 947-7500 Fax: (801) 947-7609

INDEPENDENT ACCOUNTANT'S REPORT ON STATE LEGAL COMPLIANCE

August 19, 2006

To the Board of Directors of
Family Support Center

We have audited the consolidated financial statements of Family Support Center, a nonprofit corporation, for the year ended June 30, 2006, and have issued our report thereon dated August 19, 2006. As part of our audit, we have audited Family Support Center's compliance with the requirements of the provider contract determined to be a major state assistance program as required by the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2006. Family Support Center received the following major assistance programs from the State of Utah:

Department of Human Services
Division of Child and Family Services
Contract #050648 - Midvale Crisis Nursery and Adoptive Respite Care

Department of Human Services
Division of Child and Family Services
Contract #050472 - Sugarhouse Crisis Nursery

The management of Family Support Center is responsible for its compliance with all compliance requirements of the contracts identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements of the contract referred to above occurred. An audit includes examining, on a test basis, evidence about Family Support Center's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements of the contracts referred to above.

In our opinion, Family Support Center complied, in all material respects, with the requirements of the provider contracts identified above for the year ended June 30, 2006.

Lake, Hill & Myers

► Lake, Hill & Myers

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

August 19, 2006

To the Board of Directors of
Family Support Center

We have audited the consolidated financial statements of Family Support Center (a nonprofit organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated August 19, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Family Support Center's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Family Support Center's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide an opinion on the internal control over financial reporting. However we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. The reportable condition relates to two general ledger account balances not reconciling to the supporting detail subsidiary ledgers. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Family Support Center's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the consolidated financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the audit committee, management, and others within the organization and is not intended to be used and should not be used by anyone other than these specified parties.

Lake, Hill & Myers



The Family Support Center

October 17, 2006

Kent Godfrey
Utah State Auditor
East Capitol Complex Suite E310
Salt Lake City, Utah 84114-2310

Kent:

As President of the Board of Directors of the Family Support Center I am responding to your request for a letter concerning the reportable condition in the external audit report issued by Lake, Hill and Myers for the Family Support Center for FY 2005-2006.

The reportable condition is that the accounts receivable and accounts payable ledger amounts do not reconcile to the general ledger, though the amount listed in the general ledger is correct. This problem resulted from the agency accounting system switching from an old DOS version of the CYMA system to a new version of CYMA that is Windows-based. Data was entered into the AP and AR incorrectly. The problem will be corrected prior to November 14th, with the help of CYMA technical support personnel.

Please feel free to contact me if you have further questions that we may address.

Sincerely,

Paula W. Marsh
Board President
Family Support Center